



CITY OF HUNTINGTON BEACH

Finance Board

TO: The City Council

CC: Penny Culbreth-Graft, City Administrator

FROM: Finance Board

DATE: January 20, 2007

**SUBJECT: SUBMITTAL OF FINANCE BOARD ANNUAL REPORT,
CALENDAR YEAR 2006**

The City Council created the Finance Board in 1993 to "act in an advisory capacity to the City Council in matters pertaining to financial planning." One duty of your Finance Board is to prepare an Annual Report to the City Council. This report is intended for that purpose.

A handwritten signature in cursive script that reads "Charles Falzon".

Charles Falzon
Chairman, Finance Board

Tim Geddes, Vice Chairman

Members:

Bob Jones

Frank Lograsso

Stephen King (new member)

Steve Garcia (new member)

Gerald Chapman (former member)

Joe Domingo (former member)

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INTRODUCTION/OVERVIEW OF 2006

The year 2006 was another busy year for the Finance Board. As we did in 2005, we started 2006 with a Joint Study Session with Council to help establish Board priorities for 2006. Our activities during 2006, as described below, generally followed the priorities set at the start of the year and also included items from our regular calendar of activities.

CITY COUNCIL/FINANCE BOARD JOINT STUDY SESSION - MARCH 6, 2006

The City Council and Finance Board held a joint Study Session on March 6, 2006 to review the Finance Board Annual report and discuss the Finance Board's potential activities for 2006. The general consensus of the Council was that the Finance Board would concentrate on (1) Unfunded Liabilities, (2) the Finance Board's roles & responsibilities, and (3) a long term financial plan for the city, and that the Finance Board would follow-up on two other items: (4) Neighborhood Improvement Districts and (5) the e-Civis software for grants. A sixth item discussed was the change to the service from Rainbow Disposal.

1. Unfunded Liabilities

During the Study Session of February 22, 2005, the Council expressed concern regarding the City's unfunded liabilities. The Finance Board offered to explore the subject to better understand these liabilities and to assist in communicating this subject to the general public. The detailed presentation of Unfunded Liabilities in the FY05/06 budget was a direct result of Finance Board recommendations to staff. The Board's current direction is to include the treatment of Unfunded Liabilities as part of the Long Term Financial Plan.

2. Finance Board Roles & Responsibilities

During the 2006 calendar year, the Finance Board discussed the various roles and responsibilities that would help this advisory body best serve the City Council and the citizens of Huntington Beach. In the past, our activities have centered on reviewing financial policies, studying issues that might increase revenue or reduce expenditures, reviewing the proposed Annual Budget, looking at financial best practices in other comparable cities, and advising the City Council on issues of Council interest and direction. In the

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near future, we anticipate that our involvement with the Long Term Financial Plan effort will occupy much of our time during 2007.

At this point in time, the Board does not anticipate a separate effort in the near term to assess if a change in our roles and responsibilities could benefit the City.

3. Long Term Financial Plan

Historically the Finance Board has been concerned about the long-term financial health of the city. The city measured part of its financial health when it examined the long-term cost of infrastructure in the year 2000 with the IIMP study. Since then, the financial situation has continued to evolve. The Board believes a better understanding of the city's financial future is necessary, and will benefit both the Council and the citizenry. To that end, during 2005 the Board has started to work with staff to develop a long-term financial plan for our city. During November of 2005, the Board decided to delay additional effort on the Long Term Financial Plan until the Council completed their Strategic Planning effort. Our logic was that the LTFP should be supportive of the Strategic Plan.

With the release of the City Strategic Plan on August 21, 2006, the Board began the process of developing the LTFP. At our September 2006 meeting Rick Amadril, from the Finance Department, gave the Board a presentation on the process for writing a Request For Qualifications (RFQ) for a consultant to help the Board with the preparation of the LTFP. During our December meeting, we reviewed a draft RFQ and gave Rick Amadril our approval to proceed with its issuance.

The Finance Board has always felt very strongly that a Long Term Financial Plan is one of the keys to the future long term stability of Huntington Beach. We look forward to focusing on this effort during 2007.

4. Neighborhood Improvement Districts

The Finance Board first proposed this concept in our January 2003 Annual Report. Subsequently, the City established a program similar to the one recommended by the Finance Board. To date the Board understands that staff has created a brochure describing the program but, otherwise, there has been little activity with this program.

In November 2006 city staff made a presentation to the Board on the program and how it could be improved. Everyone agreed that the current program is not working. The Board believes the program needs to be simplified from the perspective of the resident. We should also see if we can learn from other

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cities that have implemented similar programs. Until the program is improved, the City should not expend any additional effort in advertising the program. The Finance Board will continue to address this topic in 2007.

5. Grants

With the Finance Board's recommendation, the eCivis Grants Locator Service was first implemented by the City in April 2005, with a recommendation for renewal in early 2006.

Although usage for 2005 did not reflect the expected benefits, 2006 does show a significant increase in the number of users and usage. The Board believes this to be the result of:

- A. Meetings with eCivis, Finance Board and staff to discuss methods for improving utilization of the service, implementing enhancements available thru the service, and ways to provide administrative documentation reflecting system usage.
- B. Due to recent changes in the system, eCivis has also provided on-site training for Huntington Beach end users and has streamlined the search process by enhancing the capabilities of the search engine to reduce the time necessary for identifying grants applicable to the user.
- C. Weekly e-mails sent by eCivis to all users identifying new grants.
- D. Commitment by staff to implement and distribute, monthly and annual, departmental reports reflecting the following information by user:
 - 1. Number of logins
 - 2. Grants Viewed
 - 3. Grants Saved.

Staff is currently measuring the effectiveness of the system by providing a report documenting the number of grants applied for, won or lost, as a result of using this process. This first report will be completed by April 2007.

It should be noted that this service has also provided benefits to non-profit groups associated with the City at no additional cost. It is the Finance Board's recommendation that the eCivis contract be renewed for 2007.

6. Rainbow Disposal Contract

One of the proposed 2006 activities that the Finance Board scheduled during last year's annual report was to review the Rainbow Disposal Trash Collection Proposal. To facilitate this action item, the Finance Board invited representatives from Rainbow Disposal to attend our meeting on April 25, 2006 to discuss their proposed changes to the current refuse collection and processing system for residents of Huntington Beach. The Finance Board

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requested this presentation to ask the Rainbow representatives about the potential impacts, financial and otherwise, to the City of Huntington Beach and to the residential ratepayers due to Rainbow's proposed changes.

The result of this meeting and other investigative work of the Finance Board was a recommendation to the City Council to take the opportunity to renegotiate the existing "evergreen" contract with Rainbow. It was the Finance Board's conclusion that this type of contract was contrary to the best interests of the city and that the underlying justification for this type of contract no longer existed.

Other items of concern to the Finance Board included:

- The revised role of the citizens of Huntington Beach to now perform the work of employees of Rainbow, with no compensation,
- The incorrect way the trash rates were currently being calculated,
- The legality of "free" services provided by Rainbow to the city, and
- The motivation for City personnel to recycle.

The Council decided to extend the "evergreen" contract with Rainbow and to move forward with the new curbside recycling program. While the Board was supportive of the new curbside recycling program we were disappointed that the Council did not take this opportunity to improve this franchise agreement. Another opportunity won't come our way for at least another eighteen years.

Depreciation of Assets and Infrastructure

As part of the Council's discussion and approval of the Cost Allocation and Fee Study in August/September of 2003, the issue was raised as to what processes and procedures the City would follow for cost recovery related to depreciation of assets and infrastructure. Subsequently, the City decided to not include depreciation in the costs that are passed to citizens in the form of fees for services. If the City decides to do so in the future, the Finance Board will, at that time, revisit this issue.

Capital Improvement Program

In the latter part of 2006, the Finance Board worked with staff to better understand capital improvement budgeting and the volume of capital projects the city is able to complete in any given fiscal year. An initial staff presentation led to a December meeting with Bob Beardsley, Director of Public Works, and some members of his staff where some additional materials were presented to the Board. The Board expects to continue this item into 2007 to determine if any recommendations to the Council are warranted.

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PROPOSED 2007 ACTIVITIES

- Long Term Financial Plan, including Unfunded Liabilities
- Equipment/Vehicle Replacement Administrative Regulation
- Grants/eCivis
- Neighborhood Improvement Districts
- Capital Improvement Program

SUMMARY

In summary, the Finance Board's charter is to serve the Council, and through the Council, the citizens of Huntington Beach. We welcome Council comment on our proposed 2007 activities and we look forward to working with the Council to address the City's financial challenges.